

**Testimony of
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Sectoral Trade Disputes on Lumber and Steel:
Keeping the Bargain on Trade
Senate Finance Committee
February 13, 2002**

Thank you, Mr. Chairman, Senator Grassley, and Members of the Committee, for inviting me to testify before the Senate Finance Committee. Senator Baucus, I want to thank you for holding this hearing. If we expect the American people to support an aggressive, forward-looking trade agenda, we must assure them that we will look out for their interests – while working at the negotiating table, pressing for compliance with trade agreements, and enforcing our trade remedy laws.

The two industries that you have asked me to address specifically -- lumber and steel -- offer instructive examples of what I mean. I think they also underscore what the Administration has done to restore trust and renew the bargain with the American people on trade. Both industries face markets significantly distorted by government intervention over a period of years. In the case of steel, it is the legacy of foreign government involvement in the market that has left us with 200 million tons of excess capacity globally. In the lumber industry, it is the requirements that our neighbors to the north impose on their own industry to continue cutting timber, even when demand would dictate otherwise, that exacerbate the price swings our lumber mills face, particularly when economic growth slows in the U.S. economy as a whole.

I look forward to continuing what you set in motion with your leadership during the Committee's field hearing that you chaired in Missoula on June 1, 2001. Your activism and energy is reflected in this Committee's ambitious agenda. Both Secretary Evans and I welcome the attention from the Committee in its leading oversight role. We enjoy our close working relationship with you and your staff.

Trade Liberalization

Mr. Chairman, the President's trade agenda is the focus of our work in the International Trade Administration. President Bush believes, and I agree, that trade means considerably more than just economic growth, more higher-paying jobs, and a rising standard of living in America. Trade is ultimately about freedom. As the President said in his first State of the Union address, "In every region, free markets and free trade and free societies are proving their power to lift lives. Together with friends and allies from Europe to Asia, and Africa to Latin America, we will demonstrate that the forces of terror cannot stop the momentum of freedom."

Trade has provided enormous benefits worldwide. WTO figures indicate that tariffs on manufactured goods averaged nearly 40 percent at the time the GATT was created in 1947. By the end of the Uruguay Round, for developed countries, those rates

had fallen to below 5 percent. During that same time, trade increased 16 times. The OECD has estimated that the Uruguay Round delivers annually the equivalent of a \$200 billion tax cut to consumers worldwide.

Our efforts in the GATT have been focused on “tariffication” – that is, transforming trade barriers to tariffs, which can be quantified and measured. We established certain rules to keep from undercutting these efforts, and we continue to regard the antidumping and countervailing duty laws that Congress has given us as critical tools to aid in that purpose.

Our work is not done. A recent study by Robert Stern at the Gerald R. Ford School of Public Policy at the University of Michigan underscores that point. Professor Stern estimates that a one-third reduction in global barriers to trade in agriculture, services, and manufacturing, would yield \$613 billion in world economic growth, the equivalent of an economy the size of Canada. Eliminating all trade barriers would boost global growth by \$1.9 trillion, the equivalent of adding two Chinas.

This is why we must succeed with our efforts on the Doha Development Agenda, the FTAA, and our other FTA negotiations. Trade promotion authority would empower our negotiators and send an important signal to our trading partners – showing that our executive and legislative branches had reached a consensus on trade to help lift living standards throughout the world. And this why we need to keep the bargain on trade by ensuring that our trading partners keep their commitments. At the same time, that policy is also fundamentally about fairness.

The Role of the Commerce Department

As Secretary Evans and I see it, my main job is to be an advocate for U.S. exporters. That advocacy takes a number of different forms.

On the top of that list is ensuring that our trading partners comply with our trade agreements. Nothing is more dispiriting to our farmers, workers, and entrepreneurs than the sense that they are not receiving the market access we bargained for in various trade agreements. For our country to achieve the full benefits of open trade, we need to ensure that other countries live up to past trade agreements.

The next item on my list of priorities is expanding export opportunities for American business, both through the negotiation of new commitments on market access and through trade promotion. I am extremely fortunate to be working with the professionals in the Commerce Department's International Trade Administration who have a long and successful record on both counts.

Within the International Trade Administration, the staff of Trade Development, which is an organization of industry-specific trade specialists, plays an integral role in setting the agenda for our trade negotiations and in support of our negotiators in the

Office of the U.S. Trade Representative. Similarly, staff in the Market Access and Compliance unit provide their country strategic and functional expertise in support of USTR's negotiations in the WTO, FTAA and other trade agreements. There are also a number of areas, such as disciplines on foreign unfair trade practices, such as subsidies, where the Commerce Department takes the lead.

On the trade promotion front, my job is to make sure that our exporters, and those individuals and firms looking to export markets for the first time, are aware of the tremendous resources available to them at the Commerce Department. Mr. Chairman, as you know, our U.S. Export Assistance Centers (USEACs), such as the one in Missoula, provide a vital link back to the Department, where there are a number of forms of assistance available to our exporters. They also provide a link to our Commercial Service officers, whose main role is to identify export opportunities for American business and link American firms with those opportunities. Our Commercial Service officers are located in 105 offices in cities throughout the United States, and in 160 locations in 85 countries abroad. Our Advocacy Center provides all U.S. exporters with a unique, central point for marshaling all the resources of 19 U.S. government agencies to ensure that sales of U.S. products and services have the best possible chance abroad. The Department's Trade Information Center provides a "one-stop-shop" for information on U.S. government resources designed to facilitate their export transactions.

In addition to the role that the Commerce Department plays in promoting our exports, the professionals in ITA's Market Access and Compliance and Import Administration units are ready to assist our exporters and domestic producers when foreign governments try to unfairly tilt the playing field in favor of their exporters. Import Administration administers both the antidumping and countervailing duty laws.

Congress designed the antidumping laws to ensure that our producers in the United States were not undercut by foreign exporters dumping their goods here in the U.S. market. Although the law focuses on dumping by individual firms, it is often the case that some government action lies behind the ability of foreign firms to sell into our market at prices that may not cover their operating expenses, much less provide a normal rate of return on their capital.

For example, when a government keeps its own markets closed, it guarantees its producers a higher rate of return than they would otherwise receive in fair and open international competition. The net result is that those firms can often afford to subsidize their sales into the U.S. market.

Similarly, Congress designed the countervailing duty laws from the start to combat subsidies paid by foreign governments to assist their exporters. What Congress understood as far back as 1890, when it introduced the original countervailing duty law to combat production subsidies paid by the Tsarist government to Russian sugar exporters, was that the effect of a protective tariff or an outright grant of cash to a foreign producer was the same. It allowed the foreign exporter to sell his products at a lower

price on the U.S. market because the foreign government was assuming (or forcing others to assume) a part of the producer's cost of doing business.

The job of our professionals in Import Administration is twofold. First and foremost, they are responsible for investigating claims by U.S. industries producing a like-product that goods exported to the United States are unfairly dumped or subsidized. We're mindful of the dramatic impact that these cases have, both domestically and internationally, and we have been administering these proceedings in a fair and transparent manner, in keeping with Congress' intent for the vigorous enforcement of the antidumping and countervailing duty laws.

The second part of Import Administration's job is also very important: That is to use the leverage of the antidumping and countervailing duty actions to persuade foreign governments to eliminate the underlying unfair practices.

In that regard, let me reiterate something about how Secretary Evans and I approach the administration of the U.S. trade remedy laws. I want to underscore the fact that we view these laws as an essential part of the bargain on trade.

We negotiate market access for our exports and open our markets to imports on the assumption that the trade will flow according to the laws of the marketplace, not based on which government intervenes to tilt the playing field in their exporter's direction. And Congress intended our trade remedy laws to ensure that our basic assumption about free and fair competition prevails.

It also is important to note, however, that if we find that either dumping or subsidies exist, we will always look to solve the root of the problem. We must eliminate the underlying government action that affords advantages to certain players in the marketplace at the expense of others.

Lumber

We are indebted to Governor Racicot for his leadership and work in finding a solution to the softwood lumber dispute. We have greatly appreciated his efforts to advance progress on this issue. As you know, we have been approaching the lumber issue on two separate tracks: the dumping and subsidy cases and the discussions to find a long-term market-based solution. Commerce and USTR have worked closely together on this; Commerce has taken the lead on the trade cases, and USTR has taken the lead on the discussions. Let me assure you of one thing that Secretary Evans and Ambassador Zoellick feel very strongly about: We will not accept any agreement that does not provide a level playing field. Any trade agreement must address the underlying subsidies and market distortions that led to the dispute in the first place. If it does not, we will enforce our trade laws vigorously and complete the cases.

Status of the Cases

Both the dumping and subsidy cases are on track to be completed by March 21. We're continuing to work hard to make sure that these cases are conducted in a fair, accurate and transparent manner, providing all interested parties with the opportunity to provide their comments for the record and the Department's consideration.

With regard to some of the details in these cases, we will be addressing a number of complex questions that have arisen in the course of these investigations, including issues concerning valuation, and certain company and product exclusions. In connection with these proceedings, we are also engaged in a number of cases in this area involving the WTO's Dispute Settlement Body and NAFTA.

Status of the Discussions

Ambassador Allgeier will address the details of the current status of the discussions, but I would like to make a few points. As Secretary Evans and I have stressed to members of this Committee, in addition to strictly enforcing our trade laws, we want to get at the underlying government practices that lead to the unfair trade. In the case of lumber, it is the administered pricing systems and other market-distorting practices that are at the heart of the trade cases. And it is these practices that we are attempting to reform in the discussions. If we cannot achieve bona fide reform, we must pursue the trade cases. Secretary Evans and Ambassador Zoellick feel very strongly about this.

Steel

No other single trade issue has gained more attention at the Cabinet level than steel. A major problem our steel companies continue to face is a legacy of competing with state-owned and state-subsidized steel producers. The net effect has been a glut of excess capacity that outstrips world demand. This distorts the playing field on which our own steel industry must compete – a playing field that features historically low prices, falling production capacity utilization, and declining employment.

The time has come to find a lasting solution – one that restores market conditions to the steel trade globally. We must find a way to get rid of the government interference and underlying distortions in the market that have produced the global glut in the first place. That is why President Bush laid out a three-part strategy, which included the initiation of international talks aimed at eliminating excess inefficient global capacity and market-distorting practices, such as subsidies, that propped up this capacity.

Pursuant to the President's three-part strategy for steel, our efforts are focused on a number of fronts, including: (1) review of all the information relevant to the International Trade Commission's (ITC) Section 201 injury determination and careful consideration of the views of our industry, consumers, unions, and other interested parties; (2) discussions with other steel-producing countries on market-based reduction of

inefficient excess steel-making capacity; and (3) discussions with our trading partners to develop measures that address the market-distorting practices that have led to the current situation in the steel industry.

Section 201 Investigation

In response to the President's request, the ITC completed its investigation on imports of steel products, determined that imports of steel products are a substantial cause of serious injury to the U.S. steel industry, and recommended that the President provide relief to the domestic industry. Although the recommendations of the individual Commissioners vary from product to product, they have recommended some form of relief for each of the 16 product categories for which the ITC made an affirmative determination of injury, with various recommendations, including tariffs, quotas, and tariff-rate quotas.

The President has significant discretion in deciding whether to impose remedies under Section 201 and, if so, in selecting the appropriate remedies. We're carefully considering all options in making our recommendation to the President.

Of course, it hardly needs to be said, the conduct of the Section 201 investigation (as well as unfair trade actions) adheres to the objective of vigorously implementing trade remedy actions in a manner consistent with U.S. law and international obligations.

Steel Capacity Rationalization Negotiations

The second element of President Bush's three-part initiative is to work with other steel-producing countries to facilitate the market-based reduction of inefficient excess capacity in the global steel industry. In a special meeting at the OECD last September, the United States raised the issue of pursuing reductions of excess capacity. Thirty-nine countries agreed that overcapacity was a global problem in the steel trade. Each participating government undertook a self-assessment of the conditions in its steel markets and committed to provide reports on projected closure of capacity in the near term. Specifically, the OECD Secretariat requested each government to: (1) address the long term economic viability of its steel industry; (2) identify the inefficient capacity and explain how this capacity was identified; (3) identify economic, social and regulatory issues that hinder the closure of uneconomic capacity; (4) discuss policies and proposals under consideration to encourage capacity rationalization and the closure of inefficient capacity; and (5) project future decreases in production capacity.

Last December, we met to discuss our findings. As a result of our self-assessments, countries reported projected capacity closures of up to 117.5 million metric tons by the end of 2005. Participating countries recognized that the market, if allowed to operate, will eliminate a significant amount of the overcapacity currently in the global steel industry.

While we have made good progress in addressing the problem of overcapacity, there is still much more to be done. We hope to improve the quality of the reports that were submitted, and have urged countries to take a closer and more realistic look at their respective steel industries and how their industries will likely respond to future market forces. As additional countries submit more complete reports, we will obtain a snap shot of the steel industry worldwide and how steelmaking capacity in each country is forecasted to change. This information is crucial in allowing us to better understand and address the problem of excess capacity.

In addition to reporting on overcapacity, countries also agreed to work together to address developments in capacity and to undertake a number of other actions related to furthering market forces in steel trade. These talks continue. I participated in the third OECD High-Level Meeting on Steel last week, where we stressed that, to continue making progress in this area, we need to establish a working group to study the best means by which to collect capacity-related data and to report it to the participating countries. This working group was formed and will present its findings at the next High-Level meeting in April.

Discussions on Disciplines to Address Market-Distorting Practices

The third element of the President's steel initiative is focused on the market-distorting practices that have led to the current condition of the industry. Our work through the OECD process has generated broad support for enhancing disciplines on subsidies and other market distorting practices. As a result of our efforts to encourage consensus on the issue of overcapacity, participating countries concurred that government intervention in steel has hampered the efficient functioning of the market and that the problem of overcapacity will likely recur without effective market disciplines. Participants agreed that all governments affirmed the need to pay closer attention to: (1) subsidies and related measures that support new steelmaking facilities; (2) government assistance to failing steel enterprises; (3) measures and regulations that impede fair competition and trade in steel; and (4) anti-competitive behavior that distorts the steel market.

To further the President's objectives in this area, we called for, and reached agreement on, the formation of a group to identify and inventory government interventions and other market-distorting measures in steel, and to discuss the manner in which negotiations on such measures would be conducted.

The December communique made it clear that this discussion should not be limited to "garden-variety" government subsidies to the steel sector (*e.g.*, grants, loans, debt forgiveness, below market priced inputs), but should include other trade restrictive and market-distortive measures where governments could be taking affirmative steps to ensure the market is working efficiently. The purpose of this exercise would be to develop a comprehensive list of practices that participating countries believe should be taken up in discussions about disciplines.

The group also could examine how negotiations in this area could be structured, particularly in connection with the WTO process. The practices identified by the group could be taken up as part of the WTO rules negotiations. The steel discussions could both contribute to and gain from the course of negotiations and other work in related areas, such as market access, services, competition policy and rules. After developing the list of practices and examining the possible structure for negotiations, the group would then report its findings at the next High-Level meeting in April.

Pursuing Solutions

I want to underscore the President's commitment to trade liberalization. The President intends to press forward bilaterally, regionally, and multilaterally, to expand our trade and the economic opportunities that it creates for all Americans. A key part of the President's trade agenda is the renewal of trade promotion authority. Whether or not Congress grants that authority rests ultimately on trust -- trust that the President will make sure that our trade policy works for all Americans. We expect to earn the trust of the American people as we advance our trade agenda.

I believe it is our duty under the trade remedy laws that Congress has enacted to ensure not just that we fairly investigate the allegations brought before us by petitioning U.S. industries, but also to search for solutions to the underlying problems that give rise to those complaints in the first place.

I intend to ensure that we continue to effect Congress' intent in providing redress to U.S. industry when it faces unfairly traded goods. But, I also intend to use the industry's filing of the petition as a catalyst to pursue solutions to the underlying complaints.

I believe that is consistent with our obligation under the law and with the intent of President Bush and Secretary Evans as well. Both the President and Secretary Evans spent the formative years of their careers in business where the market places a premium on identifying solutions to problems and implementing those solutions as quickly and effectively as possible.

That ought to be our goal here as well. In that effort, both the Secretary and I will need your help. Due to your long record as an ardent advocate on behalf of open and fair competition in international markets, you are in a unique position to ensure that we accomplish that goal.

Thank you, Mr. Chairman. I look forward to your questions.